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To: Docket Control W-01646A-06-0010 W-01868A-06-0010
Docket Nos. W-01646A-06-0010 W-02235A-06-0010 W-02316A-06-0010
W-02230A-06-0010 W-01629A-06-0010
W-02240A-06-0010

Date: November 28, 2006

Re: Compliance for Emergency Interim Rate Relief- McLain Water Systems
Uncollected Interim Management fees

On November 9, 2006 ACC Staff submitted a Docket addressing the unpaid management fees for the Emergency Interim Management in the recommended amount of \$134,536.20. The actual amounts owed Arizona Small Utilities Association (ASUA) is significantly higher.

Management acknowledges that the management of the systems was difficult in that the systems were in disrepair. Expenditures incurred were not what one would assume to be ordinary operating expenditures. The systems did include significant emergency repairs and significant capital improvements not funded by the ordinary rate structure of the systems then in place. In fact, rate increases were never approved due to the state of non-compliance for a number of years leaving the utilities without significant cash flow to operate. Arizona Small Utilities Association took on a very difficult operation in order to keep services running.

Arizona Small Utilities Association (ASUA) in fact incurred significant internal expenditures for their employees to manage these water systems. In each case, the ASUA employees were clocked out of their grant programs to perform the duties. This created significant decreases in grant revenue earned which was suppose to be recovered through the collection of management fees. The lack of payment of these management fees has created significant cash flow problems to ASUA.

Arizona Small Utilities Association provided other services that Staff should consider. These services would include: Backflow Tariffs and Backflow Plans, the Emergency Operation Plan, the Water Curtailment Tariffs, Site Sampling Plans, and the Backflow Surveys.

The Staff memorandum acknowledges an underpayment but has some issues we believe were not considered in their final computations of amounts due.

First, the Staff eliminated payroll and overhead for amounts paid to Johnny McLain JR. as being excessive and imprudent. Johnny McLain JR. was paid at the rate of \$26 per hour and \$39 per hour for overtime hours. The Staff memo dictates this as being excessive. What has not been considered is that Johnny McLain JR. supplied a backhoe fully furnished during this time. Rates reviewed in Southern Arizona reveal that this would normally go for \$57 to \$75 per hour. Thus, for the 2,148 hours the rate should have been \$122,436 to \$161,100. Wages were not imprudent, but in fact saved the water systems \$52,000 to \$90,000. The wages of \$70,304 should be fully included in allowable expenditures to manage the water systems.

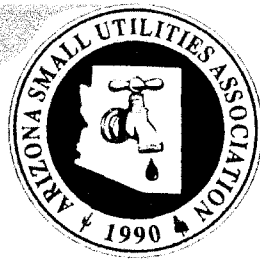
ASUA should be compensated for the time value of money. The original contract was to be paid monthly. The lack of payment created significant cash flows which were financed through extending vendor payments and in many instances creating late charges

Arizona Corporation Commission
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**ARIZONA SMALL
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and actual loans which carried interest at 8%. ASUA is owed \$16,898 for the time value of money since they incurred a real loss for the lack of payment of their fees.

Due to the disrepair of the water systems as a whole, significant costs were continually occurring. As of September 30, 2006, additional costs of \$21,576.53 were still outstanding which were not taken into consideration by the staff docket.

This includes an extraordinary charge of \$19,096.69 billing from Cochise County for water purchased during significant down time in the water systems. Again, the serious disrepair of the systems as a whole created significant expenses above what would be considered ordinary operating expenses.

Arizona Small Utilities Association also advanced funds for expenditures totaling \$11,191.80 which have not been disbursed.

A loan was made by the State of Arizona for equipment repairs which was verbally committed to be a grant. However, the state is now asking for reimbursement from ASUA. The additional equipment costs reimbursements due are \$10,700.

The organization also continue to incur management costs for transfer of operations, accounting for closing activities, attend monthly management meetings and bankruptcy hearings related to the water systems and for collecting their fees. These costs have been estimated at \$10,000.

In conclusion, while certain objections were raised about some of the operations, the general and prolonged disrepair of the systems required immediate expenditures which were above normal general operating cost. Our predecessors have also realized similar extraordinary costs and, with the concurrence of the ACC, have dramatically adjusted their fees accordingly. ASUA was committed to making the water systems work and in turn were significantly impaired by their lack of payment for their management services. The damages included lost income, lost expense reimbursement, incomplete expense reimbursement and significant debt and debt service incurred to continue funding the water systems.

The attached schedule shows the revise funds due for the management of the McLain water systems. Total amounts due are \$267,787.53. ASUA realizes that there are usually differing opinions when trying to resolve such trying issues. Our only goal is to be "made whole" as promised, when we entered into these discussions. The Board of Directors appreciates your willingness to work with us in reaching an amicable resolution to this dilemma. We are eager to bring this issue to closure and welcome your response.

Sincerely,

Flavio Gonzalez
Interim Executive Director
Arizona Small Utilities Association

		MGMT FEE	PAID	UN PAID MGMT FEE		8% INTEREST
JULY	2004	12,106	(10,000)	2,106	2,106	14.04
AUG	2004	12,106	(10,000)	2,106	4,212	28.08
SEPT	2004	12,106	(10,000)	2,106	6,318	42.12
OCT	2004	12,106	(10,000)	2,106	8,424	56.16
NOV	2004	12,106	(10,000)	2,106	10,530	70.20
DEC	2004	12,043	(10,000)	2,043	12,573	83.82
JAN	2005	11,970	(10,000)	1,970	14,543	96.95
FEB	2005	12,474	(7,920)	4,554	19,097	127.31
MAR	2005	12,526	(7,406)	5,120	24,217	161.45
APRIL	2005	12,862	(7,894)	4,968	29,185	194.57
MAY	2005	12,862	(7,847)	5,015	34,200	228.00
JUNE	2005	12,758	0	12,758	46,958	313.05
JULY	2005	12,862	0	12,862	59,820	398.80
AUG	2005	12,894	0	12,894	72,714	484.76
SEPT	2005	13,408	0	13,408	86,122	574.15
OCT	2005	13,534	0	13,534	99,656	664.37
NOV	2005	13,660	0	13,660	113,316	755.44
DEC	2005	13,650	0	13,650	126,966	846.44
JAN	2006	13,702	0	13,702	140,668	937.79
FEB	2006	13,587	0	13,587	154,255	1,028.37
MAR	2006	13,671	0	13,671	167,926	1,119.51
APRIL	2006	13,850	0	13,850	181,776	1,211.84
MAY	2006	13,975	0	13,975	195,751	1,305.01
JUNE	2006	14,175	0	14,175	209,926	1,399.51
JULY	2006	14,070	0	14,070	223,996	1,493.31
AUG	2006	13,839	0	13,839	237,835	1,585.57
SEPT	2006	13,839	0	13,839	251,674	1,677.83
						16,898.43
				ROUND		16,898.00

ARIZONA SMALL UTILITIES ASSOCIATION

AMOUNT PER STAFF DOCKET	134,536.20
ADDITIONS	
STAFF TIME NOT IMPRUDENT	
ACTUALLY SAVED SIGNIFICANT COSTS	62,885.00
INTEREST COSTS INCURRED	16,898.00
UNREIMBURSED EXPENDITURES	
OVER THE FEES INCURRED	21,576.53
UNREIMBURSED INVOICES ASUA	11,191.80
UNREIMBURSED GRANT MONEY OWED	10,700.00
ESTIMATED MANAGEMENT COSTS TO CLOSE DOWN	
THE MANAGEMENT, COLLECT AND ACCOUNT FOR FINAL	
OPERATIONS	10,000.00
TOTAL FEES ND COST REIMBURSEMENTS DUE	267,787.53